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## UTAH DEPARTMENT OF COMMERCE

Division of Public Utilities

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**Redacted**

### Action Request Response

**To:** Public Service Commission of Utah

**From:** Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Doug Wheelwright, Utility Technical Consultant Supervisor

Russ Cazier, Utility Analyst

**Date:** December 1, 2022

**Re:** **Dominion Energy Utah, Docket No. 22-057-20**, Adjustment in Rates and Charges to the 191 Pass-Through.

### Recommendation (Approve)

After a preliminary review of the application, the Division of Public Utilities (Division) finds the proposed rates to be just and reasonable and recommends the Public Service Commission of Utah (Commission) approve the rates as outlined by Dominion Energy Utah (Dominion or Company) with an effective date of January 1, 2023. The Division recommends the Commission approve the requested rate changes on an interim basis until an audit can be completed.

The Company simultaneously filed Docket No. 22-057-21 (Daily Transportation Imbalance Charge) requesting a rate adjustment and the same January 1, 2023, effective date. The Division's response to that Docket has been filed as a separate response.

### Issue

On November 10, 2022, Dominion filed the application identified above and the Commission subsequently issued an Action Request to the Division. On November 16, 2022, the Commission held a scheduling conference on the above matter. The Commission's

Division of Public Utilities

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Scheduling Order established December 1, 2022, as the date for the Division and others to file initial comments on both Dockets.

## **Discussion**

Dominion is requesting the Commission approve this application, which would result in a decrease of \$72,685,322 in its Utah natural gas rates and include costs associated with the Company's liquified natural gas (LNG) facility. The driving force behind the requested decrease is lower forecasted gas costs for the test period. The Company proposed decrease of \$72,685,322 includes a decrease of \$71,165,228 in the commodity portion of the rates and a decrease of \$1,520,094 in the supplier non-gas (SNG) portion of rates. If the Commission grants this Application, the typical Utah residential customer using 70 dekatherms per year will see a decrease in their total annual bill of \$44.15 or 5.30%.

## **LNG Facility**

Construction of the LNG facility has been completed and will be in service in the 4<sup>th</sup> quarter of 2022. The LNG facility will require a significant amount of electricity to cool and liquify the natural gas. The LNG facility will serve only the Utah jurisdiction, which means all the costs that are associated with this facility will be directly assigned to Utah. For the test year, electricity costs of the LNG facility are estimated to be \$2,169,025<sup>1</sup> and are included in the SNG cost of this application. It is anticipated that the electricity costs to operate the LNG facility will fluctuate from year to year based on the amount of liquification and as the price of electricity fluctuates. Since the electricity cost has been included as part of the 191 filings, the electricity cost has been removed from the revenue requirement calculations in the company's current General Rate Case in Docket No. 22-057-03.<sup>2</sup>

Dominion's application assumes that the LNG storage tank will partially be filled in December and January for a total cost of \$4,296,514<sup>3</sup> and would be available to use during

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<sup>1</sup> Exhibit 1.4, Page 2, Line 14.

<sup>2</sup> See Reporter's Transcript and Exhibits, Re: Oct 2022 Phase I Hearing – Day 2, Lines 15-24.

<sup>3</sup> Exhibit 1.2, Page 6, Line 1.

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the 2022-2023 winter heating season. Liquification and filling at the LNG facility is currently taking place with approximately 6 feet of LNG inside the storage tank. The Company is planning to complete some testing before continuing to partially fill the LNG storage tank. There is an adjustment of (\$3,025,439)<sup>4</sup> that is made due to the timing difference between when gas is injected into and subsequently withdrawn from the LNG tank. The return on working storage gas balances is estimated to be \$346,558<sup>5</sup> and is calculated based on the estimated amount held in the facility each month. If the tank is not filled or withdrawn as anticipated, the actual cost will vary and will be trued up as part of the 191 balancing account.

## **Rate Details**

This filing is based on the projected Utah gas costs of \$775,037,208<sup>6</sup> for the forecast test year ending December 31, 2023. The proposed rate represents a decrease of \$72.6 million<sup>7</sup> and is composed of a decrease of \$71.1 million in the commodity portion of the gas cost and a decrease of \$1,520 thousand in the supplier non-gas cost (SNG) portion. The driving force behind the price decrease is lower forecasted gas costs for the test period. The gas price forecast is based on estimates from two independent agencies<sup>8</sup>.

The test year cost of gas consists of cost-of-service gas from Wexpro, contract and market purchases, and storage and transportation costs. The forecast price for cost-of-service production is \$4.48 per Dth<sup>9</sup> compared to \$4.63 per Dth<sup>10</sup> in the previous filing. Market and contract purchases for natural gas are projected to be lower at \$6.91 per Dth<sup>11</sup> compared to \$7.84 per Dth<sup>12</sup> in the previous filing. Due to the large volume of cost-of-service gas from

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<sup>4</sup> Exhibit 1.2, Page 6, Line 4.

<sup>5</sup> Exhibit 1.2, Page 6, Line 18.

<sup>6</sup> Exhibit 1.1, Page 2, Line 21, Column E.

<sup>7</sup> Pass-Through Model, Utah Summary by Class.

<sup>8</sup> www.spglobal.com, S&P Global - Market Intelligence.

<sup>9</sup> Exhibit 1.2, Page 3, Column D, Line 20.

<sup>10</sup> Docket No. 22-057-16, Exhibit 1.2, Page 3, Column D, Line 20.

<sup>11</sup> Exhibit 1.2, Page 4, Column D, Line 6.

<sup>12</sup> Docket No. 22-057-16, Exhibit 1.2, Page 4, Column D, Line 6.

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Wexpro, market purchases are planned primarily during the winter months. The net result of the change in gas costs is a decrease in Total Sales Unit Commodity Cost of \$0.61 to \$6.50 per Dth.<sup>13</sup>

In the previous filing, the 191 balancing account was under-collected by \$61.2 million, and the Company established a debit amortization of \$0.53231 per Dth.<sup>14</sup> As of August 1, 2022, the commodity portion of the 191 account was \$58.5 million under-collected, and this filing is adding \$1.6 million for estimated LNG costs.<sup>15</sup> In this filing, the Company is proposing to maintain the debit amortization of \$0.53231 per Dth<sup>16</sup> from the Company's previous filing.

## **RIN Proceeds from CNG**

In Docket No. 22-057-16, the RIN (Renewable Identification Numbers) proceeds were generated through RNG (Renewable Natural Gas) sales at the Company's CNG Stations. The RIN proceeds at that time totaled \$139,370. A total of \$27,786 is expected to be amortized by January 1, 2023, with an amount of \$111,584 remaining to be amortized. In addition, new RIN proceeds have been received from September 2022 through October 2022 totaling \$3,290. The Sum of the remaining proceeds is \$114,874.<sup>17</sup> As a result, the company is proposing a credit of \$0.39643 to reduce the commodity cost for NGV customers.<sup>18</sup>

## **Supplier Non-Gas Costs (SNG)**

In contrast to the price volatility that can occur with the market price of natural gas, the SNG costs have historically been relatively stable and predictable since these costs are set by contractual transportation and storage agreements and tariffs. These costs are associated

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<sup>13</sup> Exhibit 1.5, Page 1, Column F, Line 10.

<sup>14</sup> Docket No. 22-057-16, Exhibit 1.5, page 1, line 8, Column D.

<sup>15</sup> Exhibit 1.5, Page 1, Line 2.

<sup>16</sup> Exhibit 1.5, page 1, line 9, Column D.

<sup>17</sup> Pass-Through Application, Paragraph 19.

<sup>18</sup> Exhibit 1.5, Page 6, Line 9.

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with transporting market and Wexpro gas from market hubs to city gates and storing the gas in available facilities for later withdrawal during the winter months. While the contract amounts are relatively stable, the estimation and collection of these costs occur through volumetric rates, which are set assuming normal weather conditions. Variations in the actual volumetric sales due to changing weather conditions will impact the collection of these costs and will result in the over or under collection of SNG costs.

The Company implemented the changes to the SNG and Commodity cost allocation approved by the Commission in Docket No.19-057-T01. With these changes, the Company now estimates that the SNG balance will swing between \$14.0 million under-collected to \$14.0 million over-collected. The process of under and over-collection during the year is intended to minimize the amount of interest paid or collected by the Company on the SNG costs included in the 191 balances. The Company is projecting total SNG costs for the test period of \$87,215,448<sup>19</sup> for the forecast test year plus a \$3,222,746<sup>20</sup> amortization of the under-collected amount from the previous period for a total of \$90,438,194 million.<sup>21</sup> The Company is requesting an adjustment to the base SNG rate only and no adjustment to the SNG amortization rate in this filing.<sup>22</sup>

## **Gas Supply**

For the test year, January 2023 through December 2023, the Company is projecting a total system requirement of 123,032,405 Dth.<sup>23</sup> Of the total requirement, 118,910,311 Dths<sup>24</sup> will be used to meet the projected sales requirement with 4,122,094 Dths used for gas volume reimbursement due to gathering, transportation, distribution fuel, storage, and shrinkage. Approximately 45.3%<sup>25</sup> of the annual gas requirement will be satisfied with the Wexpro cost-

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<sup>19</sup> Exhibit 1.5, page 2, Column D, Line 1.

<sup>20</sup> Exhibit 1.5, page 2, Column D, Line 2.

<sup>21</sup> Exhibit 1.5, page 2, Column D, Line 3.

<sup>22</sup> Exhibit 1.5, page 6, Lines 11 – 15.

<sup>23</sup> Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.

<sup>24</sup> Exhibit 1.5, Page 1, Column E, Line 7.

<sup>25</sup> Exhibit 1.2, Page 3, Column C, Line 20 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.

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of-service production 24.5%<sup>26</sup> will be satisfied under current purchase contracts and 30.0%<sup>27</sup> will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is \$799,983,489 million.<sup>28</sup>

The cost-of-service gas from all Wexpro production is projected to cost \$250,495,001 at an average cost of \$4.49 per Dth,<sup>29</sup> which is \$0.15 lower than the previous filing. Cost-of-service production is reported separately as Wexpro I and Wexpro II. The separation of the cost allows the Company and the Division to monitor and compare the total cost and production volume under the separate agreements. Wexpro I production has a projected cost of \$185,252,260 at an average cost of \$4.76 per Dth<sup>30</sup> including gathering costs. The volume from Wexpro I wells represents approximately 69.7% of the total cost-of-service production. Wexpro II production has a projected cost of \$65,242,741 at an average cost of \$3.86 per Dth<sup>31</sup> including gathering and represents approximately 30.3% of total production.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of \$228,170,651.<sup>32</sup> As part of its audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the OSF in this filing as well as previous pass-through filings.

## **Forecast Natural Gas Prices**

The market price forecast anticipates an average natural gas price of [REDACTED] per Dth during the summer months and [REDACTED] per Dth in the winter months and is based on an average of future price projection from two different forecasting entities, IHS Markit and S&P Global -

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<sup>26</sup> Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.

<sup>27</sup> Exhibit 1.2, Page 4, Column C, Line 4 & 5 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.

<sup>28</sup> Exhibit 1.1, Page 2, Column C, Line 21.

<sup>29</sup> Exhibit 1.2, Page 3, Column D, Line 20.

<sup>30</sup> Exhibit 1.2, Page 3, Column D, Line 8.

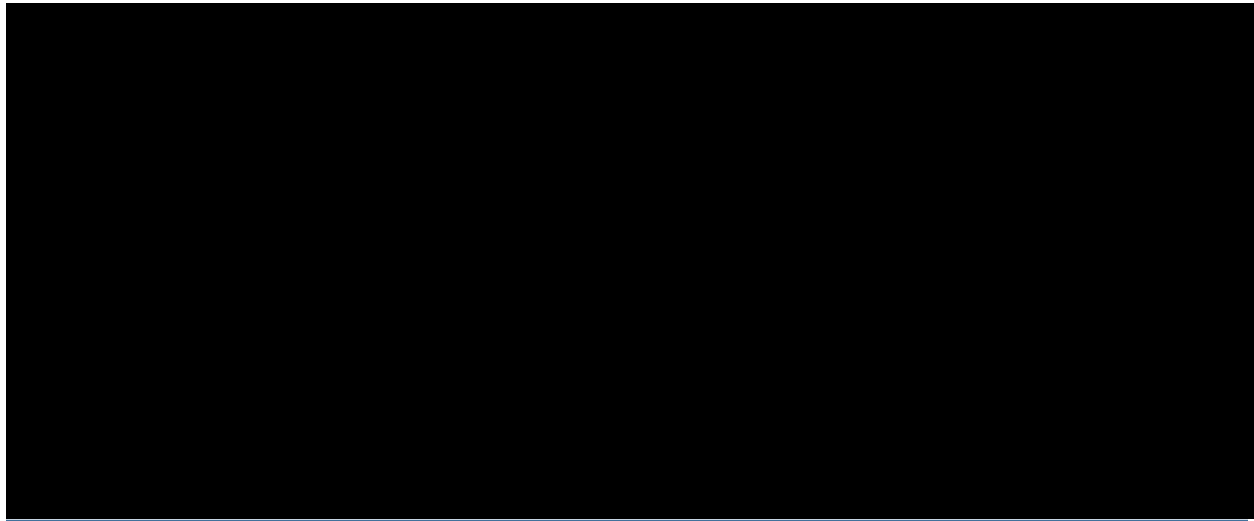
<sup>31</sup> Exhibit 1.2, Page 3, Column D, Line 13.

<sup>32</sup> Exhibit 1.2, Page 1, Line 12.

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(formerly known as CERA and PIRA). The two price forecasts along with the average of the two forecasts are displayed in Chart 1 below.

**Chart 1 – CONFIDENTIAL**



The forecast price for natural gas in the test period is lower than the previous forecast in both the winter and summer months. Since market purchases are anticipated by the Company primarily during the winter months, the Company model uses the price for spot purchases during the winter months. Historically, natural gas prices have been higher in the winter months of high demand and lower during the summer months of lower demand.

Chart 2 below provides a comparison of the forecast market prices used in Company pass-through applications during 2021 and 2022. The solid line included in the graph is the historical first of month spot price for natural gas at Opal, Wyoming (Opal FOM).<sup>33</sup> The historical price has been included to show the fluctuation in the market price and to provide a comparison of the forecast price used to establish rates in previous filings compared to

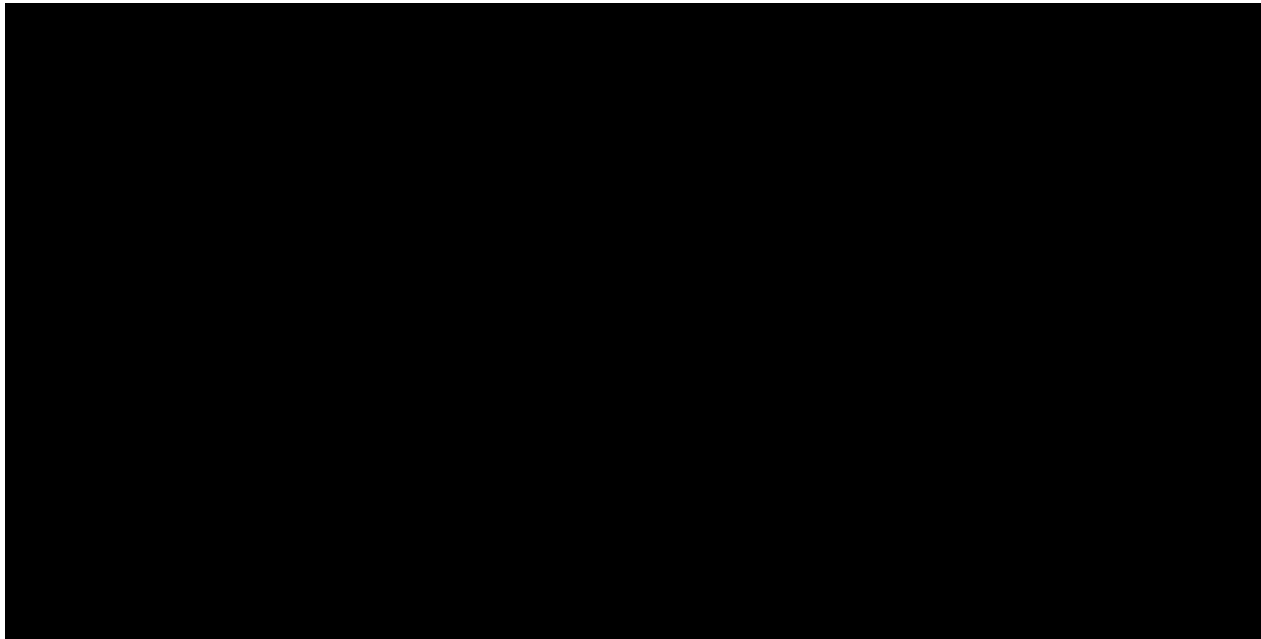
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<sup>33</sup> [www.spglobal.com](http://www.spglobal.com), S&P Global - Market Intelligence.

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the actual FOM market price. The chart also shows how actual market prices can deviate from the anticipated price that is used to set rates.

**Chart 2 – CONFIDENTIAL**



A comparison of the forecast price used to set rates compared to the actual first of the month price is also helpful to understand the reasons for the over and under-collection of gas costs in the 191 balancing account. As shown in the graph, the actual first of the month price for natural gas was higher than the forecast price during the previous heating season and is the primary reason for the under-collected balance.

## **Pricing Hedges**

The Wexpro production and the Company's gas storage facilities play an important role in the Company's plan to "hedge" against natural gas price volatility while meeting its total supply requirement. The current practices generally allow the Wexpro production to flow during the summer months to satisfy the summer demand in addition to allowing the Company to inject gas into storage for later use. The gas that has been injected into storage is withdrawn during the high demand winter heating season. The use of storage gas



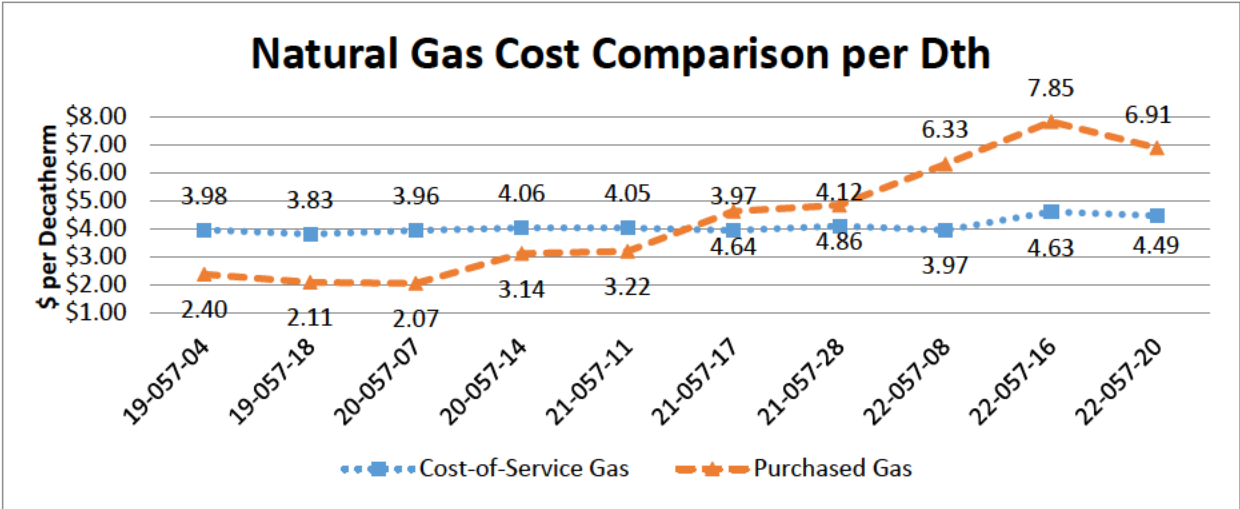
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reduces but does not eliminate the need to purchase gas during the high demand winter months. In addition to the Wexpro production, the Company has executed fixed price contracts with third party providers for a portion of the winter supply requirements however, market purchases will still be required during the winter heating season.

**Comparison to the Previous Filing**

The Company’s application provides a forecast of anticipated costs and revenue for the test period as Exhibit 1.2. To compare the projected costs in the current filing with previous pass-through filings, the Division has prepared Chart 3 below. This chart provides a comparison of the projected price per Dth for cost-of-service and purchased gas compared to the previous nine pass-through filings. The dotted line indicates the forecast cost-of-service price per Dth for gas production and includes both Wexpro I and Wexpro II production. The dashed line indicates the forecast price for purchased gas included in each filing.

Chart 3



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In the current filing, the cost-of-service gas has decreased to \$4.49 compared to \$4.63 per Dth in the previous filing and purchased gas has decreased to \$6.91 compared to \$7.85 per Dth. The chart demonstrates the significant increase in the purchased gas price in the past two years.

### **Effect on a typical GS Customer**

If approved independently, the effect of this change for a typical Utah GS residential customer using 70 dekatherms per year will see a decrease in their total annual bill of \$44.15 or 5.3%. Similarly, the effect of this change for a typical Utah GS residential customer using 80 dekatherms per year will see a decrease in their total bill of \$50.46 or 5.36%.

### **Conclusion**

The Company has been diligent this year in meeting its annual requirement from the Commission to file a pass-through application at least twice per year. Docket No. 22-057-20 is the Company's third filing in 2022. The Company also filed three pass-through applications last year in 2021 due to the rapid changes that have occurred in the natural gas market. These periodic filings by the Company have provided regular reviews of the current market conditions of natural gas and has allowed the Company to adjust their service rates as necessary. The primary reason for the proposed decrease in rates in this Docket is due to the decrease of recent forecast prices for anticipated cost of market purchases. The Company's concern for rate pressures, evidenced by this filing, is commendable.

The Division supports and recommends the rate changes be approved on an interim basis with an effective date of January 1, 2023. The interim approval will allow additional time for the Division to complete an audit of the entries into the respective accounts. If the application is approved, a typical GS residential customer using 70 Dekatherms will see a decrease of approximately \$44.15 or 5.30% in their annual bill. The Division finds the

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proposed changes are in the public interest and represent just and reasonable rates for Utah customers.

Cc: Kelly Mendenhall, Dominion Energy Utah  
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Jessica Ipson, Dominion Energy Utah  
Michele Beck, Office of Consumer Services